



*Michael C. Schlachter, CFA
Managing Director & Principal*

August 5, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Infrastructure Program Policy

Dear Anne,

You requested Wilshire's opinion with respect to Staff's proposed policy for the Infrastructure program. This document is the product of much collaboration between Staff, Wilshire, PCA, and several external parties. Our comments and recommendation regarding this policy are below.

Recommendation

For the first reading of this policy, Wilshire recommended that the document be accepted as a "first reading" only, and that Staff should substantially expand the discussion of the risk parameters for investments. We note that Staff has added leverage, sector / strategy allocation, geographic diversification, and concentration limits to this policy. In Wilshire's opinion, this satisfies our desire for better control of investment risks and we recommend that this policy be accepted.

We also note that the leverage constraints and the information regarding various investment types have been clarified. As a result, we believe that this most recent version of the policy will satisfy the concerns of the Investment Committee and should be approved.

Background and Supporting Information

CalPERS has little institutional history investing in dedicated infrastructure assets, and so the diversification, leverage, and concentration restrictions were developed with input from money managers and the Board's consultants, but are not based on any actual history of investing. We recognize that these limits may need to be changed as Staff's investment experience grows, but we believe that a reasonable starting point for risk controls is better than no risk controls at all. As a result, we recommend that the Investment Committee approve the policy, with the understanding that revisions to the various risk controls may be revised periodically over the next few years.

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We look forward to working with Staff to continue to develop the guidelines and constraints within this policy as CalPERS' investment experience in this new asset class develops. If you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Michael A. ...", with a long horizontal flourish extending to the right.